

# HSBC India Next Portfolio

## PMS Product Note

August 2023

### Which themes can benefit the most in economic revival?

CONSUMPTION		GLOCAL		DIGITISATION		HIGH ALPHA
<ul style="list-style-type: none"> <li>Secular, high growth sector</li> <li>Conventional yet progressive theme</li> </ul>	+	<ul style="list-style-type: none"> <li>Play on MNCs in India</li> <li>Structural, long term theme</li> </ul>	+	<ul style="list-style-type: none"> <li>Disruptive and New age theme</li> </ul>	=	Disruptive themes combined with secular & progressive ones have great potential to deliver high alpha

High growth potential themes may have potential to deliver superior & sustainable growth

## HSBC India Next Portfolio (HINP)

Focus on Consumption | GLOCAL | Digitisation

**Inception Date :** 18 February 2021

### Minimum Application Amount

For (1) Fixed fee option and (2) Fixed & Performance-linked option = INR 5 million

### Investment Objective

HSBC India Next Portfolio aims to generate returns and provide long term capital appreciation by investing in equity and equity related securities across market cap of businesses benefitting from transformation in Indian economy

**Benchmark:** Primary - S&P BSE 500 TRI, Secondary - BSE 200 Index. **Rationale for selection of benchmark** – Primary Benchmark prescribed by APMI as mandated by SEBI to evaluate relative performance of the portfolio. It is as per market cap based methodology for equity strategy. Secondary benchmark – Since its composition is in line with the objective of the investment approach. Index is broad based and is also suited for comparing the performance of the portfolio.

### Fund Manager

Sheetalkumar Shah, Total Experience: 27 years, managing this portfolio since 18 February 2021

### Indicative tenure or investment horizon

Medium to Long Term (3 years+)

### Description of types of securities

- Equity and equity related securities including convertible bonds and debentures and warrants carrying the right to obtain equity shares.
- Derivative instruments as may be permitted by SEBI / RBI.
- Units of liquid funds/overnight funds of HSBC Mutual Fund. Cash and cash equivalents
- Any other instruments as may be permitted by RBI / SEBI / such other Regulatory Authorities from time to time

Investors should note that pursuant to Clause 2.3 of Master Circular for Portfolio Managers dated March 20, 2023, an option to invest directly i.e. without intermediation of persons engaged in distribution services, is available to the investors.

### Portfolio Manager's commentary:

Indian equities closed July at all-time highs with the market rally turning broad based. FII flows have led this rally with total FII inflows at @ \$19bn since March. In a growth starved and heavily leveraged world, India's growth outlook & balance sheet makes it an attractive investment destination for global investors.

The US Federal Reserve increased the interest rate by 25 bps to 5.5%, the highest rate in last 22 years. Rate hikes by ECB & other central banks continue to demonstrate their concerns on sticky core inflation.

On domestic front, India economy has carried over the strong first quarter momentum into the second quarter. The July composite PMI came in at 61.9, a 13 year high. Other high frequency indicators such as GST collection, electricity consumption, auto dispatches etc. continued to support positive economic outlook. The Center's fiscal deficit remained under control in 1QFY24 at 25% of FY2024. Though corporate tax collections remain weak, receipts were buoyed by CGST and personal income tax. Cumulative rainfall for the country is 6% above normal which is a good sign.

1QFY24 earning season is halfway through and exhibit healthy growth albeit driven by few pockets. Multiple factors viz. low-base, weak consumption demand, soft commodity prices, strong capex led demand, weak export markets were at play through the quarter.

Following strong market rally, India's relative valuation to emerging market peer group looks expensive. However, India's valuation premium should be seen through a filter of its superior earnings profile, that still makes risk reward favourable in the long term. Markets may consolidate in near term after sharp up move since March lows.

We are closely analysing the earnings results of our portfolio companies and will take necessary action if required. Our portfolio is strategically focused on high growth potential themes. With unwavering focus on our portfolio investments on high quality companies with resilient business models and durable growth prospects, we believe that fundamental outlook for these companies remain robust.

### Top 10 Holdings

Name	Weight%	Theme	ROE (FY23) %	EPS CAGR (2Yrs)
STATE BANK OF INDIA	6.30	Consumption + Digital	16.7	5.8
TITAN CO LTD	5.67	Consumption	30.7	20.0
CRISIL LTD	5.53	GLOCAL	33.5	14.6
TATA COMMUNICATIONS LTD	5.22	Digital	147.3	5.4
BAJAJ FINANCE LTD	4.99	Digital + Consumption	23.5	21.8
RELIANCE INDUSTRIES LTD	4.97	Digital + Consumption	8.3	13.8
PHOENIX MILLS LTD	4.82	Consumption	17.8	12.1
ABB INDIA LTD	4.80	GLOCAL	22.6	8.6
TIMKEN INDIA LTD	4.79	GLOCAL	21.2	23.5
MARUTI SUZUKI INDIA LTD	4.78	GLOCAL + Consumption	14.0	35.6

Performance*	1 Month	3 Months	6 Months	1 Year	2 Years	Since Inception
<b>Portfolio (HINP)</b>	3.39%	14.59%	18.42%	18.01%	12.07%	16.16%
<b>BSE 500 TRI ^</b>	3.95%	12.49%	14.82%	17.41%	13.05%	14.62%
<b>BSE 200 ^^</b>	3.42%	10.99%	12.96%	14.62%	11.54%	12.19%

Source – Bloomberg, Returns over 1 year are annualized. Returns are adjusted for inflows/outflows. The above information is for general information purpose only and it should not be considered as investment research, investment recommendation or advice to any reader of this content to buy or sell investments. The portfolio may or may not have any future position in these stocks. ^ Regulatory benchmark ^^ Secondary benchmark, Data as on 31 July 2023

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Basis of selection of types of securities

The investment approach is to create long term wealth for investors by participating in companies from sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as, digitization, consumption, GLOCAL i.e. Global companies working in local markets, etc. The portfolio manager intends to do the same by buying equities of these businesses and hence, equity and equity related securities are chosen for investment. The portfolio manager may, from time to time, invest un-deployed funds in units of liquid funds/ overnight funds of HSBC Mutual Fund including cash and cash equivalents for cash management purposes

Allocation of portfolio across types of securities

Instruments	Indicative Allocation (% of assets)	
	Minimum	Maximum
Equity and equity related securities	95%	100%
Units of liquid funds/overnight funds of HSBC Mutual Fund including cash and cash equivalents*	0%	5%

For cash management and pending deployment in the portfolio

Why invest in HSBC India Next Portfolio (HINP)?

Fueled by focused themes

The portfolio aims to gain by focusing on the select themes such as Consumption, GLOCAL and Digitisation in a more concentrated manner that can propel growth.

Growth with new age portfolio

HINP's allocation to Discretionary spending can offer above average growth over a long term. Allocation to Digitisation adds new age investment ideas.

Earning visibility

Expected earnings acceleration can offer high alpha generation opportunities effectively.

High conviction and concentration

High conviction and concentrated portfolio of HINP can provide high alpha generation opportunities with our portfolio construction process and TVSQ strategy. (TVSQ – Dominant Themes, Reasonable Valuations, Scalability & Sustainability and Management Business Quality)

Risk associated with investment approach

Deployment of monies under the investment strategy will be oriented towards equity and equity related securities of companies belonging to themes/sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as digitization, consumption, GLOCAL i.e. Global companies working in local markets, etc. and hence will be affected by risks associated with these industries as well as any factors that affect the broader macro-economic environment such as interest rate changes, liquidity, cross border fund flows, statutory/regulatory changes etc.

Since the portfolio is expected to be concentrated with exposure to select themes/sectors, it may perform differently from the broader stock markets/benchmark, but may still be impacted by broad market movements. It is likely that the portfolio may also experience period of volatile performance and liquidity challenges in view of the limited number of stocks invested in by the fund manager.

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Sector Allocation

Sector Name	% of NetAssets
Financials	27.75
Consumer Discretionary	17.30
Industrials	13.60
Information Technology	8.35
Communication Services	5.22
Energy	4.97
Real Estate	4.82
Health Care	4.61
Materials	4.56
Consumer Staples	3.56

Market Capitalisation

Large Cap:	49.89%
Mid Cap:	35.47%
Small Cap:	9.36%
Avg. Weighted Market Capitalisation	Rs.2,93,207
Cr Median Market Capitalisation	Rs.98,223 Cr
Large Cap:1st 100 company in terms of full market capitalization. Mid Cap: 101st to 250th company in terms of full market capitalization. Small Cap: 251st company onwards in terms of full market capitalisation.	

Portfolio Fundamentals & Attributes

Dividend yield FY23	0.7%	2 year EPS CAGR	23.2%
P/E FY24 estimates	35.3x	RoE FY23	28.2%
P/E FY25 estimates	29.4x	Beta:	0.9

2 years EPS CAGR: FY23 – 25, Data as on 31 July 2023

Investment Strategy

The portfolio strategy endeavors to capitalize on long term wealth creation opportunity by investing in select high growth potential businesses from sectors that are likely to be beneficiaries of transformation in the Indian economy including themes such as Digitisation, Consumption, GLOCAL i.e. Global companies working in local markets, etc. The portfolio would be market cap agnostic and would focus on select themes with potential to deliver alpha over medium to long term. ^

However, it is expressly clarified that clients are not being offered any guaranteed / assured returns and that the Portfolio Manager only endeavors to meet the investment objective

**HSBC India Next Portfolio offers high conviction, concentrated investment portfolio focused on sectors that are likely to be beneficiaries of transformation in the Indian economy**

^ The Portfolio Manager may also participate in the Securities Lending Scheme.

**Portfolio Disclaimer:** The portfolio attributes of the investment approach mentioned above are based on all clients' portfolios existing as on the date stated above, excluding any temporary cash investments, and does not represent the model portfolio being offered to the clients, including prospective clients, and hence it is possible that these stocks may not be part of the portfolios constructed for new clients. The above information are for illustrative purpose only and it should not be considered as investment recommendation or advice or opinion from the Portfolio Manager on the above mentioned stocks/sectors. In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability for any financial impact to the recipient on account of use of the above information.

**\*Past performance may or may not be sustained in future.** Time weighted - Daily valuation method is used for rate of return calculation. Returns up to 1 year are absolute & over 1 year are Compounded Annualized. The performance disclosed above is based on all clients' portfolios under the investment approach, existing as on the performance calculation date, using Time Weighted Rate of Return (TWRR) of each client. All cash holdings and investments in liquid funds are also considered for calculation of performance and the performance data is net of all fees and all expenses (including taxes). Since inception date stated above is the date on which the first client investment was made under the investment approach. Please note that the actual performance for a client portfolio may vary due to factors such as expenses charged, timing of additional flows and redemption, individual client investment restrictions, if any, etc. These factors may have an impact on client's portfolio performance and hence may vary significantly from the performance disclosed above. Neither the Portfolio Manager, nor its directors or employees shall in any way liable for any variation noticed in the returns of individual client portfolios. The performance related information provided herein is not verified by SEBI.